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GOVERNOR

STATE OF MICHIGAN
MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY
LANSING

MICHAEL R. DEVOS
EXECUTIVE DIRECTOR

MEMORANDUM

DATE: August 26, 2004

TO: All Management Agents

FROM: Donna McMillan, Director
Office Of Asset Management
&
Peter Karsten, Manager-Audit,
Multifamily & Single Family Mortgage Servicing

RE: Tax /Insurance Escrow Changes/Revised MSHDA Insurance Requirements

We wanted to let you know that MSHDA staff have been working with an insurance consultant to update our insurance guidelines. A draft copy of the proposed Insurance Guidelines will be sent to you for your comments at a later date. We will evaluate all of your comments as we update our insurance guidelines.

Additionally, we want to make you aware of the following process changes that the Authority will soon implement:

- Tax/Insurance Escrow Analysis Process; and
- Tax/Insurance Escrow Adjustments

Tax/Insurance Escrow Analysis Process

- As in the past, the Authority will run the tax and insurance analyses in July and include them with the budget package information for budgeting purposes.
- The analyses will be run again after December 15 to determine any update escrow deficits or excesses. These analyses will be mailed to all management agents after December 15. Any escrow deficits will be funded from the following sources:

MSHDA Finance Staff Will Fund the Deficit from:

1. The opposite escrow, if available;
2. ORC;
3. DCE Interest.



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Any Remaining Deficit Must be Funded By:

4. Development's operating account/owner. Any remaining deficit in either escrow account must be funded from the development's operating account or the development's owner by January 30.

Any excess in the escrow will be transferred to the development's ORC account by December 31.

Tax/Insurance Escrow Adjustments

Effective October 1, 2004, tax/insurance bills that cause a shortage in the escrow accounts will be handled as follows:

1. **Funds will be Transferred From Opposite Escrow to Cover Shortage, if Excess is Available.**
2. **Funds will be Transferred From ORC or DCE Interest to Cover Shortage, if Available:**

To minimize escrow shortages in the future, the Authority will increase the development's monthly tax/insurance escrow amount. The tax/insurance amount will be divided by 12 to determine the new monthly escrow amount. An inflation factor may be applied, if applicable. A letter will be mailed to the management agent stating the amount transferred and the new monthly mortgage payment to take effect in 30 days.

3. **Development's Operating Account/Owner:** If there are **NO** excess funds available from any escrow, a letter will be sent to the management agent requiring that the escrow shortage by a specified date. The management agent must remit a check from the development's operating account to cover the shortage or notify the development's owner.

To minimize escrow shortage in the future, the Authority will increase the development's monthly tax/insurance escrow amount. The tax/insurance amount will be divided by 12 to determine the new monthly escrow amount. An inflation factor may be applied, if applicable. A letter will be mailed to the management agent stating the amount transferred and the new monthly mortgage payment to take effect in 30 days.

Future Item: The Authority has set a goal our mortgage servicing data base system to be converted to a new system in 2005. It is our hope that the new data base system will give us the ability to automate the changes listed above.

If you have any questions regarding these changes, please call me at 313/456-3579.

em: Asset Managers
Supervisors
Multi-Family Mortgage Servicing Staff